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FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC 5382
INFO RUEHCG/AMCONSUL CHENNAI 0216
RUEHCI/AMCONSUL KOLKATA 9810
RUEHLH/AMCONSUL LAHORE 3929
RUEHBI/AMCONSUL MUMBAI 9400
RUEHPW/AMCONSUL PESHAWAR 4517
RUEHIL/AMEMBASSY ISLAMABAD 3101
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 04 NEW DELHI 002149

SIPDIS

SENSITIVE
SIPDIS

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT PASS TO USTR DHARTWICK/CLILIENTFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS MICHAEL NEWBILL AND EB/TRA JEFFREY HORWITZ AND TOM
ENGLE
PASS TO FAA THOMAS NASKOVIK
PASS TO DOT DAVID MODESSIT

E.O. 12958: N/A

TAGS: [CVIS](#) [EAGR](#) [EAIR](#) [ECPS](#) [EFIN](#) [EINV](#) [PTER](#) [ETRD](#) [IN](#)
SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS

REF: New Delhi 02038

11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of April 30 - May 4, 2007.

PAKISTAN CUTS INTO INDIAN WHEAT MARKET

12. (SBU) For the first time in history, India is importing wheat
from Pakistan as of April-May 2007. Taking advantage of the
relatively lower prices of Pakistani wheat vis-à-vis domestic prices
and the rising Indian rupee, some private flour millers and traders
in southern Indian states have started importing small quantities of
wheat from Pakistan private dealers in containers on a trial basis.
Pakistan, an importer of wheat in most years, reportedly has an
exportable surplus of around 1 million tons of wheat this year and
has allocated 800,000 tons for exports. In the past, when India had
surplus wheat and Pakistan was an importer, Pakistan refused to buy
Indian wheat due to political reasons.

13. (U) The total quantity of Pakistani wheat contracted by Indian
millers/traders so far is reportedly about 1,200 containers (26,000
tons, valued at about USD 5.7 million) - of which 200 containers
have already arrived at southern ports. Higher freight costs limit
Indian imports in bulk or by truck. Pakistani wheat from south
Indian ports will be priced around \$220 to \$235 per ton plus an
additional \$10 to \$15 per ton for mill delivery. In contrast, wheat
from northern India costs south Indian flour millers around \$275 per
ton (plus additional transport costs). Thus, there is a definite
price advantage to import wheat from Pakistan. In terms of quality,
Pakistani wheat is reported to be more or less the same as Indian
wheat or even better. Compared to Pakistan, India has higher
domestic wheat prices due to several factors - (1) significant hike
in government mandated price, which combined with state taxes,
levies, and commissions adds up to around 11.5 percent of the
purchase price; (2) bagging cost; and (3) cost of inter-intra state
transportation. This information does not constitute official USDA
data but is based on news reports, market visits, and trade
sources.

14. (SBU) COMMENT: With businesspersons on both sides providing compelling reasons and lobbying directly with industry groups for greater Pakistani-Indian trade, observers are more optimistic about the potential of increased trade, lifting of trade restrictions, and reduction of non-trade barriers (NTBs). In the last year, there has been greater political will on both sides to support the peace process. If this trend continues, industry groups and the private sector will press further on areas of mutual economic benefits - especially increasing bilateral trade from the present low-level of USD 0.5 billion (according to a World Bank study). END COMMENT.

GOI WAIVES CUSTOMS DUTY ON IMPORT OF
GENERAL AVIATION AIRCRAFT

15. (SBU) As alluded to by Finance Joint Secretary Gautham Ray during a meeting with Commerce Acting Assistant Secretary Jaime Estrada on April 24, the Ministry of Finance has exempted non-scheduled operators (i.e. general aviation) and flight training schools from the three percent import duty on private aircraft and helicopters which amounts to a total 23-24 percent customs duty. This import duty exemption is a big relief for U.S. companies like Bell Helicopters whose general aviation business had been drastically impacted with the earlier tax announcement.

16. (U) Civil Aviation Minister Praful Patel welcomed the announcement of the customs duty relief. The Minister commented that the exemption will help promote flight training schools, helicopter services by non-scheduled operators, and combat the severe shortage of pilots.

INDIA ESTABLISHES AN INDEPENDENT

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REGULATOR FOR AIRPORTS

17. (U) On May 3, the Indian Cabinet introduced legislation in Parliament to establish a long-rumored Airport Economic Regulatory Authority (AERA). The Bill must now be considered by Parliament. The prime objective of the AERA will be to create a level playing field and foster healthy competition among all major airports (whether state owned, privately owned, or a public-private partnership (PPP)). The AERA's role will be to encourage investment in airport facilities, regulate tariffs on aeronautical services, protect reasonable interest of users, ensure notified airports are operated on sound economic principles, and help to enhance airport efficiency and economic viability.

WAL-MART CREATING A MARKET-ENTRY BUZZ

18. (U) Raj Jain, Wal-Mart president for emerging markets, gave the first public outlines of the company's 50-50 joint venture with Bharti Enterprises in the Indian market. The first wholesale stores, he said, would open in 2008, with the aim of reaching 75 cities in the next five to seven years. Jain also claimed that the joint venture would source 90% of goods within a 100km radius of each establishment, while still reducing prices in the Indian market by 5 to 25 percent.

19. (U) The announcement that Wal-Mart would be the official sponsor of the 2007 "Bollywood Awards" added to the big press week for the retail chain. Bollywood (India's film industry) has significant pop-culture influence not only in India, but in many other parts of the world, including Asia and the Middle East, and the sponsorship could fuel brand recognition. However, local press speculates that political sensitivities have caused a Congress Party objection to the possibility of using the Wal-Mart brand name for Bharti's retail ventures. Reports suggest that Congress is concerned that they would appear to have folded to international pressure should the Wal-Mart name appear too prominently in the Indian market.

PROPOSED HIGHER DUTY RESCINDED FOR
MOBILE PHONES WITH MULTI-FUNCTIONS

¶10. (U) India's Central Board of Excise Customs (CBEC) has gone back on a January 2007 circular that had proposed classifying GPRS (Global Packet Radio Service with wireless data service) phones as a GPS receiver or radio navigational apparatus -- know as "satellite phones" -- for tax purposes. As a result, GPRS-enabled phones will face a 4% customs duty rather than the 34% applicable on satellite phones. The move is seen as a major relief to mobile phone and PDA manufacturers such as Motorola, Blackberry, HP, Nokia, Samsung, PalmOne, and i-mate. The mobile handset market in India is now estimated at over 30,000 crore rupees (over US\$7.5 billion) annually, with high-end (GPRS, MP3, camera) phones accounting for nearly 40% of the market. Mobile phones tend to come with newer features every six months, and so GOI customs officials face difficulty in classifying products with a combination of functions due to an absence of guidelines.

BUDGET PASSES MAINLY AS PROPOSED

¶11. (U) The lower house of Parliament, the Lok Sabbha, passed the Union Budget for 2007-08 on May 3, which included a few changes the Finance Minister made to the draft budget he introduced on February 28. Most of the changes reflected strong industry input -- as in vociferous protest -- against certain tax changes that Chidambaram had proposed. These changes include removing a dual-structure duty rate on cement that Chidambaram thought would induce cement producers to lower their prices as an anti-inflationary effort. Instead, the cartel-like cement companies raised their rates on March 1 in clear defiance. The compromise budget provision passed

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on May 3 places a single excise duty on cement. Another change is a reduction in the export duty on some kinds of iron ore, since the newly imposed export duty discouraged foreign investors in the mining sector. The Finance Minister's proposed expansion of the fringe benefit tax to employee stock options (ESOPs) was changed to lower the tax burden. Taxes affecting the fledgling processed foods industry were also reduced. One last key change -- the new tax on private aircraft -- also was moderated, as discussed above.

SIGNS OF GROWTH IN RURAL INDIA

¶12. (SBU) New data released this week from the 2004-2005 National Sample Survey, which is conducted every five years, focuses on rural and urban patterns of consumer durables consumption since 1993-94. The survey indicates that rural penetration of household goods such as cars, bicycles, TV sets, and fans has grown faster (at least partly because it is growing from a small base) than urban penetration of these goods. The data does suggest that more rural residents than just the already-rich landowners are benefiting from India's reforms and recent economic growth. During the 11 year period, TV set penetration increased from 7 to 25 percent of households, while ownership of electric fans increased from 16 percent of households to 38 percent and rural motorcycle or scooter ownership tripled.

¶13. (SBU) The data simultaneously highlights and introduces challenges as well. The urban-rural gap may be narrowing as a result, but given the deep pockets of poverty in some parts of the country, the data suggests that intra-rural disparities may be increasing. Further, while fast growing, the numbers are still small -- for example, only four percent of rural households have a refrigerator -- underscoring the huge numbers of rural Indians still left out of modern India. Finally, policy support for needed infrastructure, while on the rise, still lags far behind the increasing demand for roads and electricity that this growing rural consumerism compels.

STARBUCKS TRIES AGAIN TO ENTER INDIAN MARKET

¶14. (U) On April 13, Starbucks filed a revised application with the Foreign Investment Promotion Board (FIPB) following its previous

application which was rejected by the board about three months ago. Starbucks' new proposal seeks to enter India through the franchise route instead of the joint venture model. Econ section is in touch with Starbucks' representative in the region to monitor its entry into the Indian market.

CPI-M SEES LITTLE MOVEMENT IN POSTAL BILL

¶15. (SBU) Emboffs met with CPI-M Deputy Leader Mohammad Salim on May 4 to discuss the Department of Post's proposed postal bill amendments (reftel A). Post was interested to hear from Salim what stakes the Left might have in the bill, given the large trade union presence in the Department and the proposed rollback in foreign investment. Salim, however, indicated that the bill was not a priority for the CPI-M, and that he fully anticipated that the suggested reduction in the foreign investment cap from 100 percent to 49 percent would be removed by Finance Minister Chidambaram and Planning Commission Deputy Chairman Montek Singh Ahluwalia. Salim assessed that the recent signs of activity were generated by an activist minister of state within the Ministry of Post, who often did not reflect the priorities of the Minister, much less of the rest of the government.

¶16. (SBU) Overall, Salim did not expect the bill to go further than the "request for comment" stage that requires all senior ministries to provide input. Salim believed there was no consensus, and little support, in the rest of the government, for most elements of the Department of Post's proposed bill, and as such, would remain at the

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pre-Parliamentary stage indefinitely. Salim acknowledged that the express and courier industry had created significant numbers of jobs even in remote areas through franchises that would be harmed if the bill passed as currently proposed. Those jobs are a significant constituency, he noted, that will make it politically difficult to impose most of the proposed limitations and rollbacks on the industry. However, Salim asserted that the Department of Posts needed funding to keep post offices open and serve all the rural areas that are not natural markets of the fast growing express and courier industry. (Note: This may be a sign that the Left favors the proposed universal service obligation tax, although Salim did not say that explicitly.) Overall, Salim's responses suggested the Left is sitting out the reawakened postal bill, expecting much of it to be stripped away in the inter-ministerial process, but having bottomlined their concerns that the rural areas need additional funding.

¶17. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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